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SUBJECT: Argentine Trade Officials on Doha: Optimistic Words,
Pessimistic Attitude

Ref: Buenos Aires 1079

SUMMARY

¶1. (SBU) Nestor Stancanelli, a senior GoA trade official, expressed pique at Brazil's decision to favor an end-game WTO Doha round compromise proposal on agriculture and NAMA tariffs, but argued that intra-Mercosur relations between Argentina and Brazil remain good. In a Doha post-mortem, he argued that a final agreement had been within reach and that Argentina would have been satisfied to split the difference on final developed and developing country NAMA tariff proposals. He reiterated longstanding Argentine complaints that proposed Doha cuts on manufacturing tariffs by Argentina were out of "balance" with proposed cuts in agricultural subsidies by developed countries. Foreign Ministry Trade Secretary Chiaradia told the press August 13 "it will be a long time" before high-level WTO talks can be revived, citing U.S. elections and the ending of EU Trade rep Mandelson's term, and complained in Congressional testimony about Brazil breaking ranks with Argentina. End Summary.

Relations with Brazil Good, Despite Doha Differences

¶2. (SBU) Visiting Senate Foreign Relations Committee Professional Staff Member Carl Meacham and State WHA/BSC Deputy Director Bruce Friedman joined Econoffs in an August 7 meeting with Nestor Stancanelli, Argentine Foreign Ministry (MFA) Director of International Economic Relations. Stancanelli opened saying that intra-Mercosur relations following the recent failure of Doha Development Round (DDR) talks (Ref A) remain good. He noted that Argentina and Brazil have differently structured economies, especially in their industrial bases, and said Argentina's approach was more similar to that of South Africa, including its emphasis in expanding high-paying manufacturing jobs, especially in the auto and auto parts sectors. Stancanelli argued that Brazilian companies working in ethanol production, along with Embraer (aircraft manufacturer) and Petrobras (state-owned oil company), had inordinate "weight" in FIESP (Federation of Industry in the State of Sao Paulo), Brazil's leading private-sector industrial group. FIESP, whose industrial membership is becoming increasingly competitive in global markets, was a key organization pushing the GoB to be more flexible in Doha, he said.

Doha by the Number

¶3. (SBU) In his Doha post-mortem, Stancanelli said that a Swiss coefficient of less than 35 "lacked all sense" for Argentina, as it would have represented a 45-50% cut in NAMA tariffs to an average tariff of 16%, whereas a 20 coefficient would have cut the average to 12.1%. Such a cut, was "not acceptable at all." Argentina could possibly have agreed to an average tariff of 14 or 15%, but 12% was

too low, asking rhetorically "how could Schwab and Mandelson not see this?" He added that a 20% tariff for sensitive products (without clarifying what percentage of tariff lines this would comprise) and 10-12% tariffs for other products would be acceptable.

Acknowledging that Brazil had been ready to accept a tariff cut to an average of 12%, he wondered if Brazil's interest in a seat on the United Nations Security Council, and desire to be seen as a regional leader, had made them more willing to compromise.

¶4. (SBU) Stancanelli added that it's "Chinese imports that worry us the most," stating that China's share of Argentine imports is currently about 13%, while the U.S. share is only 8-9%. (In 2007, U.S. share was 11.8% and Chinese share 11.4%. Preliminary GoA statistics show that in the first half of 2008, Chinese share was 11.8% and NAFTA's share was 15.3%.) He added that "it seems like the U.S. was negotiating for China," arguing that greater tariff cuts would have increased Chinese, but not U.S., exports to Argentina.

Progress Possible, but Argentina "In a Trap"

¶5. (SBU) Asked where he saw the Doha process going forward, Stancanelli said he doubted there would be any movement in the short term, certainly not until after there was a new U.S. President and USTR, elections in India, and change in the European Commission (apparently referring to the term of Peter Mandelson, the EC Trade Commissioner, ending in November 2009). He also cited the lack of U.S. Trade Promotion Authority (TPA), claiming this was the reason USTR Schwab was unable to lower agricultural subsidy caps to \$13 or \$12 billion, rather than her final \$14.5 billion offer in Geneva. He stated that continuing Doha Round discussions are important to

maintain a strong multilateral trade system. On the USTR statement that USG offers remain on the table if equivalent levels of ambition from other WTO members on ag, NAMA, and services are forthcoming, Stancanelli said Argentina was very open on services and willing to bind commitments in that area, but such a decision would depend on the agriculture and NAMA results. He stated that those areas still have to be corrected, because "we're caught in a trap" between excessively steep industrial cuts and not enough new agricultural market access. He suggested that one possible way to make things "equitable" was for agricultural and NAMA cuts to both be linear or both be based on Swiss coefficients, rather than one of each.

¶6. (SBU) The USG should want an Argentina that is growing, stable and democratic, Stancanelli said. He asked rhetorically, "What's better for the U.S. - \$8 billion in Argentine imports with low tariffs, or \$60 billion with higher tariffs?" (NOTE: he cited 2001 for the \$8 billion figure, while actual imports were \$8.99 billion; 2007 imports were nearly \$45 billion. END NOTE.)

Consideration of Renewed 4+1, Other Bilat Engagement

¶7. (SBU) Responding to a question by Meacham on the potential for future bilateral trade opening discussions, Stancanelli said Argentina could not negotiate anything related to tariffs bilaterally, but only through Mercosur. He recalled 4+1 (Mercosur plus the U.S.) trade discussions years ago, but pointedly noted that it was difficult to negotiate Argentine tariff reductions in exchange for reduced U.S. domestic ag subsidies, since U.S. subsidies can't be altered to benefit any specific trading partner. Antonio Trombetta, MFA Director of North American Affairs, asked what USG interest in a renewed 4+1 might be. Meacham responded by mentioning potential MOUs in non-trade areas, perhaps between Argentine provinces and U.S. states, citing a recent agreement between Chile and California covering education, alternative energy, and science and technology. EconCouns raised BIT concerns, especially related to outstanding ICSID cases, and Meacham noted that U.S. firms frequently ask Congress about investment climate issues, including the GoA's failure to pay out on final ICSID awards, and that those firms put pressure on Congress, which responds by considering legislative options such as whether to renew GSP privileges for a country. Stancanelli responded, "We want the U.S. as a good partner, investing and trading, but the U.S. has to

realize they are not our biggest partner."

Some Public Statements Similar...

¶8. (SBU) In a separate presentation to the Argentine Council for International Relations (CARI) on August 11, Stancanelli emphasized similar points. He was upbeat about future possibilities of the DDR - "I don't like to talk about failure" - and argued that the gap between Argentina's position and the most recent proposal by WTO head Pascal Lamy was small. He said that Lamy's proposal of a Swiss 20 coefficient, with flexibility of 14% of tariff lines (for a customs union) comprising 16% of total imports, would reduce Argentina's 30.6% average bound tariff to 13.4%. The NAMA-11 proposal, a Swiss 20 with flexibility for 10% of tariff lines without an import share limit, would result in a 17.0% average tariff. (While Stancanelli didn't specify, the difference between these numbers and the 12.1%/16% figures he cited in the other meeting could represent the difference between bound and applied tariffs.)

¶9. (SBU) He also repeated his opinions that "we need a strong multilateral system" in trade; that Argentina and South Africa were very similar in their negotiating positions and interests in DDR talks; that TPA renewal would give the U.S. more negotiating flexibility; that finalizing the Round would have to wait until after U.S. elections, a new USTR mandate, Indian elections, and a change in the European Commission leadership; and expressed optimism that talks could progress in the interim "on a technical level." He added that, "I still think we could have reached an agreement" in Geneva.

...but "Where Is the Balance?"

¶10. (SBU) Stancanelli raised a number of other topics when delving into DDR background. For example, he was critical of Lamy's decision to break talks into "concentric circles" of countries. He argued that the spirit of the Hong Kong declaration was being ignored, given that Lamy's proposal called for developed country cuts of about 50% in agriculture subsidies and about 40% in NAMA. On the other hand, it cited cuts of about 57-59% in NAMA for developing countries. "Where," he asked, "is the balance?" He also

argued that the proposal was unbalanced between ag and NAMA in other areas: the NAMA proposal converts duties on quantities or weight to ad valorem equivalents, but ag doesn't; NAMA caps each tariff line, but ag doesn't - despite an Argentine proposal to cap them at 100%, which Stancanelli noted was not included in any draft paper or Lamy's proposal; and that NAMA restrictions included share of total imports, but not so for ag. Secretary of Trade Alfredo Chiaradia (Stancanelli's boss), in comments to the press on August 9, added another difference: "It is unacceptable that in the twenty-first century agricultural exports subsidies continue to be legal, whereas those on industrial goods continue to be illegal."

¶11. (SBU) Stancanelli was also critical of the U.S. in the more open setting. When discussing the Special Safeguard Mechanism, the point over which the most recent Geneva talks broke down, he stated that "the U.S. insisted on a trigger over 55%" increase in imports of a specific product, while India asked for 10-15%. He also argued that Lamy's proposal would allow the U.S. to increase agricultural domestic support by up to 34%, using 2006 expenses alone as a baseline, rather than a more realistic average of several years. He didn't reserve his criticism for just the U.S.: when asked about Brazil's change in negotiating stance, he replied, "Argentina didn't break the NAMA-11." Chiaradia, in statements to the Argentine Congress's lower chamber Committee on Foreign Relations August 13, stated that Brazil's decision "will not be free, it will have a cost within Mercosur." He added that each country "has to take responsibility" for its decisions.

Comment

¶12. (SBU) Stancanelli's complaint about being left out of DDR small group meetings in Geneva says much about Argentina's presumption to punch above its weight (0.4% of global trade) in WTO talks. His pique at Brazil's decision to agree to Lamy's DDR compromise proposal made clear his sense of frustration and alienation from Argentina's neighbor and primary trading partner. However, Stancanelli's belief that a DDR agreement is still within reach is notable, and in an aside to Econoff after the August 11 presentation, he said, "If we had simply split the difference on the Swiss coefficient, we'd have finished" the round. Optimism notwithstanding, the GoA doesn't seem to expect any near term progress. MFA Trade Secretary Chiaradia told the press August 13 "it will be a long time" before high-level WTO talks can be revived, citing U.S. elections and Mandelson's term ending. Instead, he added that Mercosur and the EU will meet "in the coming months" to continue free trade agreement talks that had been shelved when a Doha accord appeared viable.

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